

ADMIN. FILE

OCT 01 1980

Gentlemen:

We have completed consideration of your application for recognition of exemption from income tax under section 501(c)(7) of the Internal Revenue Code.

You were incorporated [REDACTED], under the [REDACTED] Non-Profit Corporation Act for pleasure, recreation, or other non-profit purposes. Your Articles of Incorporation state that your objectives will be the promotion and encouragement of the breeding of purebred [REDACTED], the promotion of good sportsmanship and general good fellowship among all dog lovers, and the holding of such shows, matches, and field trials as deemed advisable. Although you weren't incorporated until [REDACTED], you have been in operation since [REDACTED].

Your primary activities are monthly meetings and sponsoring dog shows and tattoo clinics. The entry fee for dog shows is approximately \$[REDACTED], and both members and non-members are allowed to enter. The tattoo clinics are open to members and non-members and you charge \$[REDACTED] each to tattoo dogs and cats. You submitted a copy of an advertisement you use to publicize the tattoo clinic.

Financial data you submitted shows that for the year ended [REDACTED], gross receipts from non-members were \$[REDACTED] and total gross receipts for that same period were \$[REDACTED], for a non-member percentage of [REDACTED]%. Furthermore, for years beginning after [REDACTED], the percentage of gross receipts from non-members was [REDACTED]%.

Membership dues for your organization are \$[REDACTED] an individual a year or \$[REDACTED] a family a year. Any person who is at least 18 years of age and in good standing with [REDACTED] may be a member.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

DATE	INITIATED	REVIEWED	REVIEWER	REVIEWER	REVIEWER	REVIEWER
		[REDACTED]	[REDACTED]			
SUB NAME		[REDACTED]	[REDACTED]			
DATE		9-17-80	9-23-80			

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

"(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

Revenue Ruling 65-63, 1965-1, C.B. 240 holds that a non-profit organization which, in conducting events for the pleasure and recreation of its members, permits the general public to attend such events for a fee on a recurring basis and solicits patronage by advertising, does not qualify for exemption as a club organized exclusively for pleasure, recreation and other non-profitable purposes under section 501(c)(7).

According to Revenue Ruling 58-589, 1958-2 C.B. 266, in order to qualify as a social club within the meaning of section 501(c)(7), there must be significant commingling among members. Substantial non-member participation in an organization's activities is evidence that the necessary element of commingling among members is not present.

Revenue Procedure 71-17, 1971-1 C.B. 683, modified by Public Law 94-568, sets forth limitations on the extent to which non-members may participate in activities that a section 501(c)(7) organization sponsors. Under Public Law 94-568, generally no more than 15 percent of gross receipts can be derived from the use of club facilities and services by the general public.

Your organization has received substantially more than 15% non-member gross receipts for several years and non-member income is encouraged through advertising. Therefore, you do not fall within the limitation prescribed by Revenue Procedure 71-17, as amended by Public Law 94-568.

Accordingly, we have determined that you do not meet the requirements for tax exempt status under section 501(c)(7) and exemption is denied.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible. You should also file Form 1120, Federal income tax return, for 1979 and all prior years within 30 days with Chief, Technical Staff, Internal Revenue Service, 1100 Commerce, Dallas, Texas, 75424.

If you do not agree with these conclusions, you may, within 30 days for the date of this letter, file a written protest in accordance with the instructions set forth in the enclosed Publication 892.

Sincerely yours,

Acting District Director

Enclosures:  
Form 6018  
Publication 892

cc: Sutin, Thayer & Browne